REPRINT FROM STC BULLETIN NO. 3 OF 1995

E) Additions

PA 415 defines additions for the capped value formula. The following are additions from PA 415:

1) Omitted Real Property

Omitted real property is property which should have been included on a previous year's assessment roll but was incorrectly omitted. Omitted property shall not qualify as an addition in the current capped value formula unless the assessor has a property record card or other documentation showing that the omitted real property was not previously included in the assessment.

If omitted property is discovered after the assessment roll has been completed by the Board of Review, it may be added to the tax roll by using the section 154 procedures already established for handling omitted property. (Note: The State Tax Commission does not accept section 154 filings involving minor items such as missing porches).

The dollar amount of the addition in the capped value formula for omitted property is the amount of taxable value the omitted property would currently have if it had not been omitted. For 1995, this amount is 50% of the current TCV of the omitted property. However, starting in 1996, the assessor will be required to calculate the SEV of the omitted property as of the year it was omitted and calculate its taxable value up to the current year as if it had not been omitted.

2) Omitted Personal Property

Omitted personal property is treated the same as omitted real property except that the law does not require that the assessor have a property record card or other documentation showing that the omitted personal property was not previously included in the assessment.

3) New Construction

New construction is property which was not in existence on the tax day for last year's assessment roll and is new on the current year's roll. New construction does not include replacement construction which is a separate category to be discussed later. New construction may include real or personal property.

The dollar amount of the addition in the capped value formula for new construction is calculated as follows:

Addition = TCV of the new construction X 50%

PA 415 states that new construction does not include the true cash value of expenditures for normal repairs, replacement, and maintenance which qualify to be exempted under the provisions of MCL 211.27(2)(a) to (o) sometimes referred to as the Mathieu Gast Act. The State Tax Commission advises that a taxpayer who wishes to have property exempt under this section of the law must apply in writing to the assessor, preferably on form L-4293. PA 415 changes MCL 211.27(2) to allow the exemption of qualifying expenditures for normal repairs, replacement, and maintenance made at any time by the current owner. Formerly, only expenditures made after December 30, 1976 could qualify for non-consideration.

4) Previously Exempt Property

Previously exempt property is property that was exempt from ad valorem taxation on the immediately preceding tax day but is assessable on the current tax day.

There are 3 categories of previously exempt property:

a) Property that was previously exempt under the provisions of MCL 211.7u (poverty exemption).

   The dollar amount of the addition in the capped value formula for property previously exempt under MCL 211.7u is calculated as follows:

   Addition = The Taxable Value of the entire parcel in the current year if it had not been exempt MINUS (The Taxable Value in the preceding year X the lesser of 1.05 or the inflation rate).

   In the folloiwng example, this formula will result in the same taxable value in the year following a poverty exemption that the property would have had if it had not been exempt. In other words, a property which receives a poverty exemption in a current year will not in the following year lose the advantage of a low ratio of taxable value to true cash value that it may have gained over several years of the cap having been applied.

EXAMPLE:

1994 Assessed value of a property = $30,000

1994 Board of Review grants a partial poverty exemption lowering the assessed value to $10,000.

1994 State Equalized Value after exemption = $10,000

Inflation rate = 1.026
No physical changes to property in 1994.

1995 Tentative State Equalized Value = $31,000

Addition = The Taxable Value of entire parcel in current year if it had not been exempt MINUS (Taxable Value in preceding year X the lesser of 1.05 or inflation rate which is 1.026)

= ($30,000 x 1.026) MINUS ($10,000 x 1.026)
= $30,780 MINUS $10,260
= $20,520

1995 Capped Value = (1994 Final SEV - Losses) X (The lower of 1.05 or the inflation rate of 1.026) + Additions
= ($10,000 - 0) X 1.026 + $20,520
= $30,780

NOTE: Public Act No. 390 of 1994 (Enrolled House Bill No. 5019) expands section 7u of the General Property Tax Act which deals with the poverty exemption. This new law allows partial poverty exemptions. PA 390 will be addressed by a future bulletin.

b) Property that was previously exempt under the provisions of MCL 211.7k because it qualified as a new facility on the Industrial Facilities Tax (IFT) roll. Property previously exempt under MCL 211.7k as a replacement facility fits into category c below.

The amount of the addition in the capped value formula for property previously exempt under MCL 211.7k as a new facility is the taxable value the property would have had in the current year if it had not been exempt. The dollar amount of the addition would be 50% of TCV for 1995. However, in future years it could be less than 50% if TCV increases faster than taxable value.

c) Property that was previously exempt under any other section of law is the TCV of previously exempt property x 50%. This includes property previously exempt under MCL 211.7k as a replacement facility.

5) <u>Replacement Construction</u>

Replacement construction is construction that replaces property damaged or destroyed by accident or by an act of God provided that <u>all</u> 4 of the following conditions are met:

a) The property being replaced must have been damaged or destroyed by accident or an act of God.

b) The accident or act of God which damaged or destroyed the property occurred within the three calendar years preceding the current assessment year.

c) The replacement construction occurred sometime in the year following last year's tax day.

d) The TCV of the amount allowed as replacement construction does not exceed the TCV of the property damaged as destroyed. If the true cash value of the construction exceeds the true cash value of the property that was damaged or destroyed, the excess amount must be treated as "new construction" under category #3 above.

The dollar amount of the addition in the capped value formula for replacement construction is calculated as follows:

$$\text{Addition} = \begin{array}{c}\text{TCV of}\\ \text{Replacement}\\ \text{Construction}\end{array} \times \frac{\text{Taxable Value of the subject property in the previous year}}{\text{TCV of the subject property in the previous year}}$$

For 1995, the third element in the formula above is 50% since the taxable value in 1994 was the SEV. However, in future years this ratio must be calculated since it may be less than 50%.

6) <u>Remediation (Correction) of Environmental Contamination</u>

An increase in the value of a parcel attributable to complete or partial correction of environmental contamination which existed on last year's tax day is an addition. The degree of remediation which has occurred shall be determined by the Department of Natural Resources.

The increase in value is frequently not the same as the cost to remediate.

The dollar amount of the addition in the capped value formula for an increase in value attributable to remediation of environmental contamination is calculated as follows:

$$\text{Addition} = \begin{array}{c}\text{Increase in}\\ \text{TCV due to}\\ \text{Remediation}\end{array} \times \frac{\text{Taxable Value of subject property as if it had not been contaminated}}{\text{TCV of subject property as if it had not been contaminated}}$$

For 1995, the third element of the formula above is 50% since taxable value in 1994 was the 1994 SEV. However, starting in 1996, this ratio must be calculated since it may be less than 50%.

7) <u>Increase in Occupancy Rate</u>

An increase in value attributable to an increase in the occupancy rate of an income producing property is an addition provided one of the following conditions is met:

a) A loss was allowed in a previous year due to a decrease in occupancy rate <u>or</u>

b) A loss was allowed in a previous year on newly constructed property due to a below market occupancy.

Note: Please refer to the section of this bulletin labeled "Losses" for an explanation of when a decrease in occupancy rate can be considered a loss.

The dollar amount of the addition in the capped value formula for an increase in value attributable to an increase in occupancy rate is calculated as follows:

$$\text{Addition} = \begin{array}{l}\text{Increase in}\\ \text{TCV due to}\\ \text{Occupancy Increase}\end{array} \times \frac{\text{Taxable Value of the subject property in the previous year}}{\text{TCV of the subject property in the previous year.}}$$

For 1995, the third element of the formula above is 50% since taxable value in 1994 was the SEV. However, starting in 1996, this ratio must be calculated.

8) <u>Public Services</u>

Public services means water service, sewer service, a primary access road, natural gas service, electrical service, telephone service, sidewalks, or street lighting.

An increase in TCV attributable to public services is an addition in the assessment year following the year when the public services were initially available.

The dollar amount of the addition in the capped value formula for public services is calculated as follows:

$$\text{Addition} = \begin{array}{l}\text{Increase in}\\ \text{TCV due to}\\ \text{Public Services}\end{array} \times 50\%$$

The following are not additions for the capped value formula:

1) Platting, Splits, or Combinations

An increase in value attributable to platting, splits, or combination of parcels is not an addition unless they are accompanied by a physical change in the property or unless the increase is due to public services (see number 8 above).

2) Zoning Change

An increase in value attributable to a change in zoning is not an addition.

3) Inflation

An increase in value due to inflation is not an addition.

4) Economic Conditions

An increase in value due to an improvement in economic conditions is not an addition.

F) Losses

PA 415 defines losses for the capped value formula. The following are losses from PA 415:

1) Property Destroyed or Removed

Property that has been destroyed or removed is a loss for the capped value formula. The dollar amount of the loss in the capped value formula is calculated as follows:

$$\text{Loss} = \begin{array}{l}\text{TCV of}\\ \text{Property}\\ \text{Destroyed or}\\ \text{Removed}\end{array} \times \frac{\text{Taxable Value of the subject property in the previous year}}{\text{TCV of the subject property in the previous year.}}$$

For 1995, the third element of the formula above is 50% since taxable value in 1994 was the 1994 SEV. However, starting in 1996, this ratio must be calculated since it may be less than 50%.

2) Exempt Property

Exempt Property is property that was subject to ad valorem taxation on the previous tax day but is exempt on the current tax day.

The dollar amount of the loss in the capped value formula for exempt property is the taxable value of the property exempted.

3) Decrease in Occupancy Rate

A decrease in value attributable to a decrease in the occupancy rate for an income producing property is a loss, provided that the decreased occupancy rate is projected to be permanent into the foreseeable future. When an occupancy rate which is at the stabilized level for the area decreases temporarily but is expected to return soon to the stabilized level, no adjustment in the value of the property is warranted.

Likewise, a newly constructed office building which is only 50% occupied on tax day should not be valued as if the 50% occupancy were permanent if the stabilized occupancy rate for the area is much higher than 50%.

The dollar amount of the loss in the capped value formula for a loss in value attributable to a decrease in the occupancy rate is calculated as follows:

$$\text{Loss} = \begin{array}{l}\text{Decrease in}\\ \text{TCV due to}\\ \text{Decrease in}\\ \text{Occupancy}\end{array} \times \frac{\text{Taxable Value of the subject property in the preceding year}}{\text{TCV of subject property in the preceding year.}}$$

For 1995, the third element of the formula above is 50% since taxable value in 1994 was the 1994 SEV. However, starting in 1996, this ratio must be calculated since it may be less than 50%.

4) Environmentally Contaminated Property

A decrease in value attributable to environmental contamination which existed on the property on the current tax day is a loss for the capped value formula. The degree of contamination must be determined by the Department of Natural Resources.

The dollar amount of the loss in the capped value formula is calculated as follows:

$$\text{Loss} = \begin{array}{l}\text{Decrease in}\\ \text{TCV attributable}\\ \text{to Contamination}\end{array} \times \frac{\text{Taxable Value of subject property in the previous year if it had not been contaminated}}{\text{TCV of subject property in the previous year if it had not been contaminated.}}$$

For 1995, the third element of the formula above is 50% since taxable value in 1994 was the 1994 SEV. However, starting in 1996, this ratio must be calculated since it may be less than 50%.

The following are not losses:

1) Platting, Splits, or Combinations

A decrease in value attributable to platting, splits, or combinations of parcels is not a loss.

2) Zoning Change

A decrease in value attributable to a change in zoning is not a loss.

3) Deflation

A decrease in value due to deflation is not a loss.

4) Economic Conditions

A decrease in value due to worsening economic conditions is not a loss.

G) Industrial Facilities Tax (IFT) Roll

Taxes on the IFT roll are calculated by multiplying the appropriate millage by the State Equalized Value of the property. It is, therefore, not necessary to calculate a capped value for the IFT roll.

H) Notice of Assessment Increase

State Tax Commission (STC) Bulletin No. 14 of 1994 informed assessors and equalization directors about the additional items required to be on the notice of assessment increase in 1995.

PA 415 adds the following 2 requirements starting in 1995 regarding the notice of assessment increase:

1) **The notice of assessment increase shall include a statement PROVIDED BY THE STATE TAX COMMISSION explaining the relationship between state equalized valuation and taxable value.**

The following statement appears on the model notice of assessment increase included with STC Bulletin No. 14 of 1994. This language must appear on all notices of assessment increase in 1995.

Proposal A, passed by the voters on March 15, 1994, places a limit on the value used to compute property taxes. STARTING IN 1995, YOUR PROPERTY TAXES WILL BE CALCULATED USING TAXABLE VALUE (see line 4 below). In the past, your taxes have been calculated using State Equalized Value (SEV). State Equalized Value is the Assessed Value multiplied by the Equalization Factor, if any. State Equalized Value must approximate 50% of market value. The Taxable Value is the lower of the 1995 State Equalized Value or the 1994 State Equalized Value multiplied by 1.026 which is the Consumer Price Index for the current period. Taxable Value may also increase or decrease due to physical changes in your property.

1997 SUPPLEMENT TO STC BULLETIN NO. 3 OF 1995

Note: While the materials which follow are part of item #11 of this bulletin, they are labeled as a **Supplemental to STC Bulletin No. 3 of 1995** with the thought that they will also be copied and added to STC Bulletin No. 3 of 1995 in order to keep all information regarding the formulas for additions and losses together in one place.

11) **Section 34d - Additions Used in the Capped Value Formula and in the "Headlee" and "Truth in Taxation" Millage Rollback Calculations (Page 13 of the copy of PA 476 of 1996)**

PA 476 of 1996 changes the method of calculating the Additions for **Replacement Construction** and **Increase in Occupancy Rate**. These Additions are used in the formula for calculating Capped Value and in the calculation of the millage rollbacks for the "Headlee" and Truth in Taxation" rollbacks.

The formulas for calculating the Additions for **Replacement Construction** and for an **Increase in Occupancy Rate** are contained in STC Bulletin No. 3 of 1995. **THOSE FORMULAS ARE NO LONGER CORRECT.**

Pa 476 OF 1996 requires that the answers by the formulas for these 2 types of additions (as discussed in STC Bulletin No. 3 of 1995) must also be multiplied by the lesser of 1.05 or the rate of inflation (1.028 for 1997 assessments).

The following are the old formulas and the new formulas for each of these 2 types of additions.

Replacement Construction

Old Formula NO LONGER USED

$$\text{Additions} = \begin{array}{c}\text{TCV of}\\ \text{Replacement}\\ \text{Construction}\end{array} \text{X} \ \frac{\text{Taxable Value of the subject property in the previous year}}{\text{TCV of the subject property in the previous year}}$$

New Formula USED STARTING IN 1997

$$\text{Additions} = \text{TCV of Replacement Construction} \times \frac{\text{Taxable Value of the subject property in the previous year}}{\text{TCV of the subject property in the previous year}} \times \textbf{Lesser of 1.05 or Inflation Rate}$$

Increase in Occupancy Rate

Old Formula NO LONGER USED

$$\text{Addition} = \text{Increase in TCV due to Occupancy Increase} \times \frac{\text{Taxable Value of the subject property in the previous year}}{\text{TCV of the subject property In the previous year}}$$

New Formula USED STARTING IN 1997

$$\text{Addition} = \text{Increase in TCV due to Occupancy Increase} \times \frac{\text{Taxable Value of the subject property in the previous year}}{\text{TCV of the subject property In the previous year}} \times \textbf{Lesser of 1.05 or Inflation Rate}$$

The other changes made to the definitions of Additions and Losses simply clarify the involvement of the Department of Environmental Quality (formerly the Department of Natural Resources) in the calculation of Additions and Losses related to **environmental contamination**. Please see pages 14 and 15 of the copy of PA 476 of 1996 attached to this bulletin for the details on those changes

END OF SUPPLEMENT TO STC BULLETIN NO. 3 OF 1995